

CONFIDENTIAL
CONFIRMATION REPORT

COUNTRY Germany (Russian Zone)

SUBJECT

Financial Problems

Heavy Industry (DDR)

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1. An analysis of the DDR centrally-controlled industries for the first half of 1950 indicates a number of serious problems in financial and economic work of the concerns. Swift counter measures are required.
2. The target plan is not being fulfilled by the centrally controlled industries. Profits totalling DM 405 million were realized as against the year's planned total of DM 1,004 million. Only 38.5 percent of the target plan was achieved, while 47.7 percent of the gross production plan was attained during the same period.
3. The most unfavorable situation obtains in the Chief Administration for Machine Construction and Electrotechnics where 45 percent of the gross production and 31.1 percent of the target plan were attained in the first six months of the year. Corresponding figures in the Chief Administration for Light Industry are 52.2 percent and 38.7 percent and in the Food Supplies Industry, 35.8 percent and 16.4 percent.
4. The main reason for the non-fulfilment of the target plan is the failure to reduce the prime costs of production. The average reduction in the centrally controlled industry amounted to 3.7 percent against a planned estimate of 8.4 percent. The situation in individual branches of industry is indicated by the following figures:

25 YEAR RE-REVIEW

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Designation of Main Administration	Reduction of actual costs in relation to 1949 (percentage)	
	Estimate for 1950	Result for period January-June 1950
Power	5.4	12.0
Coal	3.0	2.0
Minerals and Ceramics	11.3	9.4
Chemicals	10.0	4.3
Metallurgy	12.0	9.0
Machine Construction and Electrotechnics	9.3	4.1
Light Industry	11.4	2.4
Wood Industry	5.0	0.7
Average	8.4	3.7

Savings resulting from the reduction of prime costs amount in the first half of the year 1950 to DM 151 million; whereas the year's plan calls for a saving of DM 395 million. Farthest from the realization of the plan are the concerns in the light, food and machine construction industries. This situation arose as a result of underestimating the importance of reducing the prime costs of production. Even now the problems and procedures in connection with cost and accounting calculations have not been solved in the most important branches of production.

The main reason for the financial difficulties in the centrally controlled industries, the systematic failure to conform to budget payments and to pay the banks and contractors is the considerable excess of assets in the form of goods and materials. The planned level of material assets and cash amounted to DM 2,023 million; the actual amount as of 1 July 1950 was DM 2,554 million. Thus, the plan had been exceeded by DM 531 million. It should be emphasized that on 1 January 1950 the centrally controlled industries had a surplus of DM 3.14 million in excess of the estimated level and, instead of reducing inventory assets during the first half year, actually increased them by DM 217 million.

The commodity and material assets valued at DM 2,533 million as of 1 July 1950, are balanced by the following:

	Million
Own funds	DM 1342
Bank credits	DM 461
Debts	DM 330
Profits withheld for budget payment	DM 145
Unexpended Directors funds (Direktorenfonds)	DM 132
Reserves	DM 124

This adds up to 2,554 million DM.

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Thus, additional large funds were put in circulation as a result of industry's badly organized material economy. The unsatisfactory completion of requirements in relation to the reduction of prime costs is all the more unpermissible. According to these aspects of the Five Year Plan relative to reduction of prime costs, increased productivity, and general improvement in the quality of work, new demands are to be made on industry without which the completion of the Five Year Plan is impossible.

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